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| <p>Meeting Date: March 15, 2016</p> | <p>Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun 660 Davis Street, San Francisco, CA 94111</p> <p>FINANCE COMMITTEE MEETING MINUTES</p> | <p>Page 1 of 5</p> |
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Committee members present:

John Schneider, Chairman and Commissioner
Mike Jacob, PMSA Vice President-General Counsel
Ray Paetzold, San Francisco Bar Pilots (SFBP) Business Director-General Counsel

Committee members absent:

Captain George H. Livingstone, Commissioner

Staff present:

Allen Garfinkle, Executive Director
Roma Cristia-Plant, Assistant Director
Sigrid Hjelle, Office Technician

OPEN MEETING

1. Call to Order and Roll Call (Chairman Schneider).

Chairman Schneider called the meeting to order at 9:35 a.m. Chairman Schneider called the roll and confirmed a quorum.

2. Approval of minutes of Committee meeting of November 17, 2015.

There was no discussion of the minutes.

MOTION: Mr. Paetzold moved to approve the minutes from the November 17, 2015, meeting. Mr. Jacob seconded the motion.

VOTE: YES: Schneider, Jacob and Paetzold
NO: None.
ASBTAIN: None

ACTION: The motion was approved.

3. Review Board fund condition, revenue and expenditure projections and monthly data for all pilotage fees and vessel moves and their effect on:

Assistant Director Cristia-Plant reviewed the Board Operations and Training funds condition and the expenditures for each fund.

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- a) **Board Operations Surcharge (currently 2.0%). Possible recommendation to the Board to adjust the Board Operations Surcharge rate, if warranted. (Executive Director Garfinkle/Assistant Director Cristia-Plant**

The Committee reviewed the Board Operations Surcharge and noted that the Board Operations fund balance is declining as expected. There was a general discussion that a fund balance equivalent to one year of budgetary authority would be a good target to achieve. Committee member discussed raising the Board Operations Surcharge rate to reduce the rate in the decline of the fund balance, and to do so while minimizing the number of rate changes to allow the industry to do long-term financial planning.

The Committee discussed a projected fund balance at June 30, 2016, of approximately \$1.5 million, with a need to maintain a reserve balance at approximately \$1.2-1.4 million during 2017-2018, and that based upon projected pilotage revenue of approximately \$38 million, a 3.5% surcharge rate would generate about \$1.3 million in revenue. Mr. Jacob commented that more of the PMSA's members prefer smaller rate changes.

Assistant Director Cristia-Plant responded to a question from Mr. Paetzold and explained that in informal discussions late last year with the Department of Finance (DOF), DOF staff thought a fund balance representing six months of expenditures in reserve was sufficient, but that the DOF staff had not considered impacts to the shipping industry to multiple rate changes over short periods of time in the event that revenue needed to be generated quickly. The Committee then discussed the Harbors and Navigation Code §1159.2(d) requirement for the Board to maintain a reasonable reserve in the Board Operations fund.

The Committee directed staff to draft a memo from the Committee to the Board outlining the reasons as to why a one-year reserve fund balance for the Board Operations fund is a reasonable target, and to include in the memo the need to smooth rate changes for the shipping industry. The Committee also discussed the possibility of the Board sending the memo to the Department of Finance to document the Board's determination.

There was a discussion of the need to raise the Board Operations surcharge rate to approximately 3% of all pilotage revenue beginning on July 1, 2016, with subsequent rate increase January 1, 2017, if the 3% rate is insufficient to maintain the goal of a fund reserve balance equivalent to approximately one year of Board Operations expenditures.

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MOTION: Mr. Jacob moved that the Committee recommend to the Board that it raise the Board Operations Surcharge rate from 2% to 3% effective July 1, 2016, and to seek the Department of Finance's approval of the rate increase as required by statute. Mr. Paetzold seconded the motion.

VOTE: YES: Schneider, Jacob and Paetzold
NO: None
ASBTAIN: None

ACTION: The motion was approved.

b) Pilot Continuing Education Surcharge (currently \$5/move. Possible recommendation to the Board to adjust the Pilot Continuing Education Surcharge rate, if warranted. (Executive Director Garfinkle/Assistant Director Cristia-Plant)

The Committee reviewed and discussed the Pilot Continuing Education Surcharge and determined that it should remain at \$5/move.

MOTION: Mr. Jacob moved the Committee recommend to the Board to maintain the Pilot Continuing Education Surcharge at \$5/move. Mr. Paetzold seconded the motion.

VOTE: YES: Schneider, Jacob and Paetzold
NO: None
ASBTAIN: None

ACTION: The motion was approved.

c) Trainee Training Surcharge (currently \$10/trainee/move. Possible recommendation to the Board to adjust the Trainee Training Surcharge rate, if warranted. (Executive Director Garfinkle/Assistant Director Cristia-Plant)

The Committee reviewed and discussed the Trainee Training Surcharge and determined that it should be increased to cover expected increases in next year's Pilot Trainee Training Program budget given that a program entrance examination is projected to be conducted in June 2017, while maintaining approximately a one year fund balance. Executive Director Garfinkle stated that he expected program expenses to increase next fiscal year by approximately \$150,000.

MOTION: Mr. Paetzold moved the Committee recommend to the Board to increase the Trainee Training Surcharge from \$10/trainee/move to \$12/trainee/move, effective April 1, 2016. Mr. Jacob seconded the motion.

VOTE: YES: Schneider, Jacob and Paetzold
NO: None
ASBTAIN: None

ACTION: The motion was approved.

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4. Review current Pilot Vessel Surcharge rate (currently at 3.27 mills -- \$.00327) revenue, expenditures and reserve balance. Possible recommendation to the Board to adjust the Pilot Vessel Surcharge rate, if warranted. (Ray Paetzold, San Francisco Bar Pilots Business Manager/General Counsel)

Mr. Paetzold reported to the Committee the status of the surcharge balance and bank loan repayments on the P/V DRAKE. He stated that as of the end of February 2016, there was a Pilot Vessel Surcharge balance held by the SFBP of \$232,441, and the sole outstanding pilot vessel loan balance on the P/V Drake was \$1,772,329. He indicated that the surcharge balance on hand continued to increase an average of about \$7,000 per month since the last Committee meeting, and that the balance as of the end of February provided a reserve of about 2.6 months of loan payments, a little more than the agreed to reserve balance of approximately two months bank loan payments.

There was a discussion of either reducing the surcharge amount or making an extra principal payment on the vessel loan. Mr. Paetzold responded to a query from Mr. Jacob and agreed to inquire with the bank whether or not there are any prepayment penalties on the vessel loan.

Mr. Paetzold recommended to the Committee to keep the Pilot Vessel Surcharge rate at the current level at least until the next Committee meeting, at which time the Committee could decide to either adjust the rate or consider an extra payment on the vessel loan. Chairman Schneider stated that it was better in his opinion to not have fluctuating rates. Mr. Paetzold also stated that the pilot vessels are aging and requiring additional maintenance, a topic that will likely need to be addressed in the future.

MOTION: Mr. Paetzold moved to recommend to the Board that it maintain the Pilot Vessel Surcharge at 3.27 mills -- \$.00327. Mr. Jacob seconded the motion.

VOTE: YES: Schneider, Jacob and Paetzold
NO: None
ASBTAIN: None

ACTION: The motion was approved.

5. Public comment on matters not on the agenda.

There were no comments.

6. Proposals for additions to next meeting agenda.

Mr. Paetzold requested to include in the next Committee agenda an item for the Committee for review the SFBP 2015 annual audited financial statement. The Committee scheduled to meet again 9:30 a.m. on June 7, 2016.

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7. Adjournment.

There being no further business before the Committee, Chairman Schneider called for a motion to adjourn.

MOTION: Mr. Paetzold moved to adjourn. Mr. Jacob seconded the motion.

VOTE: YES: Schneider, Jacob and Paetzold

NO: None

ASBTAIN: None

ACTION: The motion was approved, and the meeting adjourned at 10:45 a.m.



Allen Garfinkle, Executive Director